

Message Text

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SUBJECT: PENSION SCHEME FOR COORDINATED ORGANIZATIONS

REFS: (A) STATE 243326, (B) OECD PARIS 26330,
(C) USNATO 5557

1. BEGIN SUMMARY: CCG AGAIN UNABLE REACH AGREEMENT ON COST TO EMPLOYEES FOR VALIDATION OF THEIR PRIOR SERVICE. CCG CHAIRMAN TO PREPARE DRAFT REPORT TO COUNCILS, FOR DISCUSSION AT NEXT CCG MEETING OCTOBER 29, OUTLINING ALTERNATIVE VALIDATION APPROACHES AND REQUESTING FURTHER INSTRUCTIONS FROM COUNCILS. OECD HEADS OF DEL ARE DISTURBED BY THIS DEVELOPMENT IN CCG AND HAVE RESET DEADLINE OF NOVEMBER 7 FOR RECEIPT OFFICIAL REPORT FROM CCG. END SUMMARY

2. NO PROGRESS ON VALIDATION ISSUE MADE AT OCTOBER 14-15 CCG MEETING. CCG REPRESENTATIVES AND SECRETARIES-GENERAL REAFFIRMED PREVIOUS POSITIONS. THE THREE PROPOSALS -- GERMAN, CANADIAN, AND THAT CONTAINED IN ARTICLE 27 OF THE 94TH CCG REPORT -- ARE EACH SUPPORTED UNCLASSIFIED

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BY SEVERAL DELEGATIONS. SWEDEN, THE NETHERLANDS AND

GERMANY CONTINUED SUPPORT THE GERMAN PROPOSAL BUT MIGHT CONSIDER MODIFICATION CALLING FOR LESSER AMOUNT OF RESIDUAL BEING RETURNED TO GOVERNMENTS. FRANCE, ITALY, SPAIN, JAPAN, NORWAY, AND LUXEMBURG SUPPORT RETENTION OF ARTICLE 27 VALIDATION FORMULA. CANADIAN POSITION, WHICH WAS SUPPORTED BY BELGIUM, WAS RESTATED SO THAT COST OF VALIDATION WOULD BE CALCULATED ON VALUE OF CONTRIBUTIONS EXPRESSED IN REAL TERMS PLUS 4 PERCENT ANNUAL INTEREST COMPOUNDED. OTHER DELEGATIONS (AUSTRALIA, UK, US) DID NOT TAKE SPECIFIC POSITION BUT SOUGHT CLARIFYING DETAIL ON HOW CANADIAN PROPOSAL WOULD BE IMPLEMENTED AND ON FINANCIAL IMPLICATIONS OF THE THREE PROPOSALS.

3. CCG CHAIRMAN MASSBERG AGREED PREPARE A DRAFT REPORT TO COUNCILS SETTING FORTH THREE PROPOSALS. THE SECRETARIES-GENERAL WERE REQUESTED TO PROVIDE CCG WITH FINANCIAL DATA ON THE EFFECT OF THE THREE PROPOSALS. (NOTE: OECD SECRETARIAT HAS ADVISED MISSION THAT FULL INFORMATION FROM OECD ON ARTICLE 27 AND GERMAN PROPOSAL WOULD BE AVAILABLE FOR NEXT CCG MEETING, BUT THAT NO WORK ON CANADIAN PROPOSAL POSSIBLE UNTIL THAT PROPOSAL WAS DEFINED IN CLEAR AND UNEQUIVOCAL TERMS.)

4. MISSION IS CONCERNED THAT BECAUSE DEVELOPMENT OF PENSION SCHEME BY CCG HAS PROCEEDED OVER A PERIOD OF SEVERAL YEARS INTERESTED OFFICES IN THE DEPARTMENT MAY NOT HAVE READY ACCESS TO THE "LEGISLATIVE HISTORY" OF PENSION PACKAGE OR SPECIFICALLY, TO THE REASONING WHICH LED TO ADOPTION OF ARTICLE 27 VALIDATION FORMULA.

5. SEVERAL CRITERIA LED TO SELECTION OF THE VALIDATION FORMULA SET OUT IN ARTICLE 27. THESE WERE:

A. THE COST TO EMPLOYEES TO VALIDATE THE EQUIVALENT NUMBER OF YEARS OF SERVICE SHOULD BE THE SAME FOR ALL OF THE COORDINATED ORGANIZATIONS.

B. IN VIEW OF THE DIVERGENT INVESTMENT EXPERIENCES

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OF THE SEVERAL PROVIDENT FUNDS, THE COST OF VALIDATION SHOULD BE SET AT A LEVEL THAT WOULD PERMIT EMPLOYEES FROM ALL THE COORDINATED ORGANIZATIONS TO VALIDATE PRIOR PENSIONABLE SERVICE FROM THEIR INDIVIDUALLY-OWNED PROVIDENT FUND HOLDINGS.

C. THE FACT THAT WITHDRAWALS FROM INDIVIDUAL PROVIDENT FUND ACCOUNTS HAD BEEN MADE FOR AUTHORIZED REASONS (TO PURCHASE HOUSING AND PARTICIPATE IN NATIONAL SOCIAL SECURITY SCHEMES) SHOULD BE TAKEN INTO ACCOUNT. THE EFFECT OF THESE AUTHORIZED WITHDRAWALS IS THAT SOME ACCOUNTS ACTUALLY CONTAIN LESS THAN THE HYPOTHETICAL VALUE OF THE ACCOUNTS. TO CITE ONE EXAMPLE, OECD EMPLOYEES HAVE WITHDRAWN FF 28 MILLION FOR AUTHORIZED PURPOSES.

D. CONSIDERATION WAS ALSO GIVEN TO THE FACT THE PREVIOUSLY PROPOSED PENSION PLAN FOR OECD HAD NOT CALLED FOR ANY PAYMENTS IN ORDER TO VALIDATE PRIOR PENSION CREDIT. (IT WILL BE RECALLED THAT CONSIDER-
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ATION OF AN OECD-ONLY PLAN LED EVENTUALLY TO THE DECISION OF GOVERNMENTS TO SEEK A CCG-WIDE PLAN.)

E. IN RESPONSE TO THESE CONSIDERATIONS, THE 94TH CCG REPORT CALLED FOR THE COST OF VALIDATION TO BE CALCULATED ON THE BASIS OF THE 21 PERCENT (OF SALARY) CONTRIBUTIONS FIGURE WITH FOUR PERCENT INTEREST RATE COMPOUNDED ANNUALLY. (ALTHOUGH IT DID NOT FIGURE IN THE NEGOTIATIONS, WE ASSUME THE FACT THAT THE U.S. CIVIL SERVICE AND FOREIGN SERVICE

PENSION SCHEMES ALSO USE THE 4 PERCENT INTEREST
FIGURE FOR THE PURCHASE OF PRIOR SERVICE CREDIT FOR
WAS A FACTOR IN DETERMINING THE U.S. POSITION
ON THIS QUESTION.)

6. IN LIGHT OF THE CRITERIA ON WHICH THE CCG BASED ITS
DECISION ON VALIDATION, THE ASSERTION IN REF C THAT THE
ARTICLE 27 VALIDATION FORMULA WILL RESULT IN A LOSS TO
GOVERNMENTS OF PERHAPS ONE HUNDRED MILLION FRANCS IS
MISLEADING, ALTHOUGH IT MIGHT BE ACCURATE TO SAY
THAT THIS IS THE HYPOTHETICAL AMOUNT THAT MIGHT BE LEFT
IN INDIVIDUAL PROVIDENT FUND ACCOUNTS IN THE EVENT THAT
(1) ALL EMPLOYEES VALIDATED PRIOR SERVICE AND (2) THAT
THEY ALSO RECONSTITUTED INTO THE PROVIDENT FUNDS ALL
AMOUNTS PREVIOUSLY WITHDRAWN TOGETHER WITH INTEREST
COMPOUNDED. (IN THE CASE OF A HYPOTHETICAL 100 PERCENT
VALIDATION AT OECD, 54 MILLION FRANCS MIGHT BE LEFT IN
INDIVIDUAL ACCOUNTS BUT EMPLOYEES WOULD NEED TO PROVIDE
AN ADDITIONAL 28 MILLION FRANCS TO ACTUALLY RECONSTITUTE
THEIR ACCOUNTS.) OECD FORECASTS THAT SOME 50 TO 70
PERCENT OF THEIR EMPLOYEES WILL ELECT TO VALIDATE PRIOR
SERVICE IF ARTICLE 27 IS APPLIED AND A SOMEWHAT SMALLER
PERCENTAGE WILL VALIDATE IN THE EVENT THAT COUNCILS
MIGHT ADOPT EITHER THE GERMAN OR CANADIAN PROPOSALS FOR
CALCULATING VALIDATION.

7. THE MISSION IS CONCERNED THAT THE VALIDATION ISSUE
WILL BECOME HOPELESSLY CONFUSED IF ANALYSIS ASSUMES THAT
EITHER WINDFALL GAINS TO EMPLOYEES OR HYPOTHETICAL LOSS
TO GOVERNMENTS ARE AT ISSUE. THE MISSION BELIEVES THAT
THE CRITERIA OUTLINED IN PARA 4 REMAIN THE ONLY SOUND
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BASIS FOR ARRIVING AT A VALIDATION FORMULA TO BE APPLIED
TO THE COORDINATION ORGANIZATIONS. VALIDATION COSTS
MUST BE THE SAME FOR ALL EMPLOYEES IN THE COORDINATED
ORGANIZATIONS, AND MUST BE SET AT A REASONABLE LEVEL
THAT WILL PERMIT EMPLOYEES BELONGING TO PROVIDENT FUNDS
HAVING LOW EARNINGS RECORDS TO VALIDATE SERVICES. FOR
THE REASONS SET OUT IN REF B, MISSION CONTINUES BELIEVE
THAT ARTICLE 27 ONLY ACCEPTABLE AND APPROPRIATE PROPOSAL
PROVIDED IT MODIFIED ALONG LINES RECOMMENDED REF B,
PARA 4, TO MEET SPECIFIC PROBLEM AREA AT NATO.

8. IN ADDITION TO REQUIRING A NEW DECISION BY THE FIVE
COUNCILS, THE GERMAN PROPOSAL HAS THE DISTINCT DISAD-
VANTAGE THAT IT WOULD CREATE A SITUATION WHERE INDIVI-
DUAL VALIDATION COSTS ARE DIFFERENT IN EACH ORGANIZATION
THUS IT FAILS TO MEET THE CCG CRITERIA.

9. CANADIAN PROPOSAL MIGHT ALSO REQUIRE NEW ACTION BY COUNCILS TO CHANGE ARTICLE 27. SINCE THERE IS NO CLEAR, UNEQUIVOCAL DEFINITION OF THE CANADIAN PROPOSAL THAT COULD BE USED AS A BASIS FOR CALCULATING AN EMPLOYEE'S VALIDATION COSTS OR TO ESTABLISH THE FINANCIAL EFFECT THE PROPOSAL WOULD HAVE ON THE HYPOTHETICAL RESIDUAL

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AMOUNTS THAT WOULD BE RETAINED BY EMPLOYEES, IT CAN NOT BE DEMONSTRATED THAT THE PROPOSAL WOULD MEET THE CCG CRITERIA. AT THE LAST CCG MEETING THE CANADIANS COULD NOT CLARIFY THEIR PROPOSAL AND THE CCG WOULD NOT AND COULD NOT QUANTIFY THE RESULTS OF APPLYING THE FORM.

10. IN ADDITION TO THE IMPOSSIBILITY OF DEMONSTRATING WHETHER THE CANADIAN PROPOSAL COULD MEET THE CCG CRITERIA AS WE STATED IN OUR PREVIOUS MESSAGE, THE CANADIAN PROPOSAL IS OF DUBIOUS LEGALITY. IN ADDITION, GOVERNMENTS HAVE CONSISTENTLY REFUSED TO PROVIDE GUARANTEES TO EITHER SALARIES OR PROVIDENT FUNDS FOR LOSSES

RESULTING FROM PARITY CHANGES. GAINS AND LOSSES (ON INVESTMENTS) FROM PARITY CHANGES WERE CALCULATED ANNUALLY FOR EACH INDIVIDUALLY-OWNED SUB-ACCOUNT IN THE OECD PROVIDENT FUND. THE CANADIAN PROPOSAL WOULD IN EFFECT ABSTRACT FROM SUCH GAINS AND LOSSES WHEN CALCULATING VALIDATION COSTS AND THEREFORE WOULD PROBABLY IMMEDIATELY BE CHALLENGED BY THE EMPLOYEES.

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11. IH SUM, IF GOVERNMENTS WERE CONCERNED ABOUT THE SIZE OF THE RESIDUAL LEFT IN PROVIDENT FUND ACCOUNT WITH SUCCESSFUL INVESTMENT RECORDS THEY COULD ONLY SEEK TO REOPEN THE ISSUE AND CHARGE A HIGHER PERCENTAGE FOR PAST SERVICE. AN ATTEMPT WHICH WOULD INDOUBTEDLY FAIL IN ANY EVENT DUE TO THE UNANIMITY REQUIREMENTS. HOWEVER THEY DID NOT AGREE TO CHARGE MORE THAN 4 PERCENT ORIGINALLY BECAUSE OF THE OBJECTIVE OF COORDINATION WHICH AS WE UNDERSTAND THE INTEREST OF THE US IS ESSENTIAL TO MAINTAIN IF WE ARE TO HOLD THE LINE AGAINST RISING SALARY COSTS HERE.

12. AFTER THE ABOVE WAS DRAFTED THE OECD HEADS OF DEL HELD ANOTHER TESTY MEETING. NUMEROUS DELEGATIONS EXPRESSED DISAPPOINTMENT WITH THE RESULTS OF THE LAST CCG MEETING. IN PARTICULAR THE SECRETARY-GENERAL WAS ASKED TO CONVEY TO THE CHAIRMAN THE HEADS OF DEL'S CONCERN THAT THE CCG APPARENTLY PLANNED TO ISSUE A REPORT ON ONLY THE VALIDATION ISSUE AND WAS NOT PLANNING TO HONOR THE OECD COUNCIL'S REQUEST THAT A FINAL REPORT ON ALL OTHER ASPECTS OF THE PENSION SCHEME, INCLUDING PENSION REGULATIONS, BE ISSUED BEFORE THE END OF OCTOBER. THE HEADS OF DEL CONCLUDED THAT THEY WOULD ONLY GIVE THE CCG UNTIL NOVEMBER 7 TO COME UP WITH A FINAL REPORT FOLLOWING WHICH THE OECD COUNCIL WOULD FACE UP TO THE RESPONSIBILITY OF DEALING WITH THE ISSUE THEMSELVES.
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